



## Report of the Directors

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The Group's principal activities consisted of the design, manufacture and sale of optical products. There were no changes in the nature of the Group's principal activities during the year.

### **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 64.

The directors do not recommend the payment of any dividend in respect of the year.

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION

A summary of the results of the Group for the last five financial reporting years and of its assets, liabilities and minority interests at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group, is set out below.

	Year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS					
TURNOVER	174,890	192,236	242,097	241,671	267,953
(LOSS)/PROFIT AFTER FINANCE COSTS	(11,100)	(10,128)	1,337	(64,168)	(102,529)
Share of profits less losses of associates	2,791	1,727	9,426	5,353	241
(LOSS)/PROFIT BEFORE TAXATION	(8,309)	(8,401)	10,763	(58,815)	(102,288)
Taxation	–	(151)	(1,000)	(295)	(176)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	(8,309)	(8,552)	9,763	(59,110)	(102,464)
Minority interests	2,541	1,498	378	221	145
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	(5,768)	(7,054)	10,141	(58,889)	(102,319)

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION (cont'd)

	As at 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
PROPERTY, PLANT AND EQUIPMENT	96,464	107,291	120,360	133,164	163,291
INTERESTS IN ASSOCIATES	37,220	35,581	30,894	31,530	55,832
OTHER NON-CURRENT ASSETS	–	–	455	–	1,760
CURRENT ASSETS	109,295	110,691	114,908	98,074	112,396
<b>TOTAL ASSETS</b>	<b>242,979</b>	<b>253,563</b>	<b>266,617</b>	<b>262,768</b>	<b>333,279</b>
CURRENT LIABILITIES	141,036	84,380	122,415	89,065	59,676
LONG TERM BORROWINGS	121,594	181,058	187,500	525,000	550,000
OTHER NON-CURRENT LIABILITIES	379	490	712	1,000	–
<b>TOTAL LIABILITIES</b>	<b>263,009</b>	<b>265,928</b>	<b>310,627</b>	<b>615,065</b>	<b>609,676</b>
MINORITY INTERESTS	45,322	47,670	45,932	46,310	46,531
	(65,352)	(60,035)	(89,942)	(398,607)	(322,928)

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

# Report of the Directors

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 30 and 31 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company had no retained profits available for cash distribution and/or distribution in specie. In addition, the Company's share premium account, in the amount of HK\$723,462,000, is governed by Section 48B of the Companies Ordinance.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 52% of the total sales for the year and sales to the largest customer included therein amounted to 23% of the total sales. Purchases from the Group's five largest suppliers accounted for approximately 31% of the total purchases for the year and purchases from the largest supplier included therein amounted to 17% of the total purchases.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

# Report of the Directors

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Yau Tak Wah, Paul

Louie Mei Po

Wong Shin Ling, Irene

Tam Wing Kin

Cheung Wah Hing

Tam Ping Wah

(resigned on 19 July 2004)

### Independent non-executive directors:

Hahn Ka Fai, Mark

Shum Wai Ting, Rebecca

Wu Wang Li

(appointed on 27 September 2004)

In accordance with article 103(A) of the Company's articles of association, all directors retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 11 of the Annual Report.

## DIRECTORS' SERVICE CONTRACTS

Mr. Wu Wang Li was appointed as an independent non-executive director on 27 September 2004 and has entered a service contract with the Company for a term of one year and subject to rotation and re-election in accordance with the memorandum and the articles of association of the Company. The annual director fee is HK\$ 120,000.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

### 1. Interests in the Company

One of the directors who held office at 31 December 2004 had the following interests in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Name of director	Nature of interest	Number of shares
Mr. Cheung Wah Hing	Personal	358,400

### 2. Interests in associated corporation

#### Tomorrow International Holdings Limited ("Tomorrow")

At 31 December 2004, the interests of the directors of the Company in the shares and underlying shares of Tomorrow, the intermediate holding company of the Company and whose shares are listed on the Stock Exchange, as recorded in the register maintained by Tomorrow pursuant to Section 352 of the SFO or notified to Tomorrow pursuant to the Model Code were as follows:

Name of Director	Note	Nature of interest	Number of shares
Mr. Yau Tak Wah, Paul	1	Corporate	14,847,400

Note:

- These shares were held through Pacific Shore Profits Limited, a company beneficially owned by Mr. Yau Tak Wah, Paul.



## Report of the Directors

### **DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)**

Save as disclosed herein, none of the directors or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe up to 10% of the nominal amount of the issued share capital of the Company. As at 31 December 2004, the Company has no share options outstanding.

Save as disclosed herein, none of the directors or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, the following interests of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
(i) Winspark Venture Limited ("Winspark Venture")	1,593,599,230	51.0%
(ii) Tomorrow	1,593,599,230	51.0%
(iii) Fortune Dynamic Group Corp. ("Fortune Dynamic")	1,593,599,230	51.0%
(iv) Probest	1,593,599,230	51.0%
(v) Rich Global Investments Limited	312,486,000	10.0%
(vi) Kingsway Lion Spur Technology Limited	281,238,000	9.0%

Winspark Venture was (or was deemed to be) interested in 1,593,599,230 ordinary shares in the Company by virtue of its 58% shareholding in Tomorrow, which in turn, held 100% shareholding in Fortune Dynamic. Fortune Dynamic held 100% shareholding in Probest, which in turn, held 1,593,599,230 shares of the Company. The entire issued share capital of Winspark Venture is beneficially owned by Mr. Chan Yuen Ming. Accordingly, the interests disclosed by parties (i), (ii), (iii) and (iv) above are in respect of the same shareholding.

Save as disclosed above, the directors of the Company are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions on the shares or underlying shares, or has any rights to subscribe for shares in respect of such capital.

## PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.



# Report of the Directors

## CONNECTED PARTY TRANSACTIONS

Details of the connected party transactions are set out in note 34 to the financial statements.

## HANMY (HOLDING) LIMITED AND ITS RELATED COMPANIES (COLLECTIVELY "HANMY")

The Group continues its legal proceedings against Hanmy to recover the amounts owed by Hanmy to the Group of approximately HK\$96.3 million. Whilst the Group has not yet obtained a court judgement due to Hanmy's defence, the Group will continue to vigorously pursue legal proceedings on legal advice. The Group has fully provided for these debts as the directors consider it is uncertain whether the debts will be recovered following the conclusion of the legal proceedings.

## LITIGATION AGAINST MR. LAM YIN SANG AND MS. CHAN HOI WO

On 15 July 1999, with the approval of the Board of Directors, the Group instigated legal proceedings against Mr. Lam Yin Sang and Ms. Chan Hoi Wo, for losses of HK\$479 million sustained as a result of various alleged breaches of fiduciary and other duties while acting formerly as directors of the Group.

Subsequent to this, Mr. Lam Yin Sang was declared bankrupt by the Court. In light of this, the directors continue to review the position with legal advisors so appropriate actions can be taken. Whilst Ms. Chan Hoi Wo has contested the Group's claim, the Group will continue to vigorously pursue legal proceedings on legal advice.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

# Report of the Directors

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the Annual Report, except that two independent non-executive directors of the Company, namely Mr. Hahn Ka Fai, Mark, and Ms. Shum Wai Ting, Rebecca, are not appointed for specific terms as required by paragraph 7 of the Code. Mr. Wu Wang Li, the independent non-executive director of the Company, has entered into a service contract with the Company for a term of one year from 27 September 2004. All independent non-executive directors of the Company are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

## **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for directors' securities transactions and all its directors have complied with required standard set out in the Model Code throughout the accounting period covered by the Annual Report.

## **CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received, from each of the independent non-executive directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## **PUBLIC FLOAT**

As at the date of this Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

# Report of the Directors

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

The Audit Committee has reviewed the final results for the year ended 31 December 2004.

## AUDITORS

KPMG retired at the 2002 annual general meeting and Ernst & Young were appointed as auditors of the Company. Ernst and Young resigned as auditors of the Company and its subsidiaries on their own accord with effect from 21 January 2004. CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Ltd) has been appointed to fill the casual vacancy in the office of auditors with effect from 21 January 2004.

CCIF CPA Limited retire and a resolution for their reappointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Tam Wing Kin**

Executive Director

Hong Kong, 22 April 2005